



# **Legislative Audit Division**

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State of Montana

Report to the Legislature

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October 1995

## **Financial-Compliance Audit** For the Two Fiscal Years Ended June 30, 1995

### **Montana State Library Commission**

**This report contains an unqualified opinion and no recommendations to the Montana State Library Commission.**

## **FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1993 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Legislative Audit Division  
Room 135 State Capitol  
PO Box 201705  
Helena MT 59620-1705

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STATE OF MONTANA

Office of the Legislative Auditor



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SCOTT A. SEACAT

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MARY BRYSON  
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JAMES GILLET  
Financial-Compliance Audit

JIM PELLEGRINI  
Performance Audit

October 1995

The Legislative Audit Committee  
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana State Library Commission's financial activity for fiscal years 1993-94 and 1994-95. The report contains no recommendations. The Montana State Library Commission's written response to the audit report is included in the back of the audit report.

We thank Montana State Library Commission officials and their staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.  
Scott A. Seacat  
Legislative Auditor

# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 1995**

## **Montana State Library Commission**

Members of the audit staff involved in this audit were Laurie Evans,  
Renee Foster, and Wayne Guazzo.

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## Appointed and Administrative Officials

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### Montana State Library Commission

		Term <u>Expires</u>
Anne Hauptman, Chairperson	Billings	May 1996
Peggy Guthrie Vice Chairperson	Choteau	May 1997
Mary Doggett	White Sulphur Springs	May 1998
Michael Schulz*	Dillon	May 1998
Cheri Bergeron	Helena	**
Myrna Lundy	Fort Benton	May 1996
Eleanor Gray	Miles City	May 1997

\* Appointed by the Commissioner of Higher Education from the Montana University System.

\*\* Designated by the Superintendent of Public Instruction. No term is set.

### Administration

Richard T. Miller, Jr.	State Librarian
Allan B. Cox	NRIS Coordinator
Darlene Staffeldt	Coordinator of Statewide Library Resources
Sandra Jarvie	Coordinator of Talking Book Library
Kris Schmitz	Accountant
Mary Jane West	Administrative Assistant

# Introduction

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## Introduction

We performed a financial-compliance audit of the Montana State Library Commission (library) for the two fiscal years ended June 30, 1995. The objectives of the audit were to:

1. Determine if the library's financial schedules present fairly the results of operations and changes in fund balances for the two fiscal years ended June 30, 1995.
2. Determine if the library complied with applicable laws and regulations.
3. Make recommendations for improvement in the management and internal controls of the library.
4. Determine the implementation status of prior audit recommendations.

This report contains no recommendations to the library. Areas of concern deemed not to have a significant effect on the successful operations of the library programs are not included in this report, but have been discussed with management.

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## Background

The library is the focal point for the development and improvement of library services in Montana. It provides general library services to Montana state government. The library operates under policies established by the Montana State Library Commission. The library was created in 1929 by law, which is currently codified in Title 22, chapter 1, MCA. The library commission consists of seven members as follows: five persons appointed by the Governor; the state Superintendent of Public Instruction or her designee; and a librarian appointed by the Commissioner of Higher Education from the Montana University System.

The library's financial activity is accounted for in two programs: 1) the Library Commission Operations Program; and 2) the Natural Resource Information System Program.

## **Introduction**

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### **State Library Operations Program**

State law charges the commission with providing library services to state government and with developing and improving statewide library services. To accomplish this, the State Library Operations Program has four major components:

**Statewide Library Resources** provides reference information services and lends materials, either directly to users or through academic, school, special, or public libraries. It also provides centralized library material acquisition, cataloging and technical processing, and operates the state documents depository center. Its responsibilities include servicing the information needs of state government, including direct interlibrary loan services. Statewide Library Resources also provides assistance to Montana libraries to promote efficient delivery of library services to Montana's citizens. Assistance provided includes budget preparation, library laws, continuing education, collection management, and library technology. Statewide Library Resources is involved in planning for the improvement of library services in the state. Coordination of the library federation system and administration of state and federal grants to local libraries are also integral parts of the Statewide Library Resources function. Library federations are combinations of libraries serving within a regional area.

**Montana Talking Book Collection** provides library services for the blind, visually impaired, and physically disabled who are unable to read standard print. The library lends books and magazines in a variety of formats to eligible individuals and institutions. It maintains and distributes special playback equipment and accessories for the program. The Library of Congress provides the playback equipment and the majority of recorded books and materials.

The Talking Book section of the library operates a volunteer program. Volunteers contributed 13,900 and 15,665 hours of services in calendar years 1993 and 1994 respectively. The volunteers provide assistance in the daily tasks such as filing orders for cassette books and preparing them for shipments. In addition, volunteers record books for the blind that are of interest to Montanans or are written by Montana authors.



**State Institution Library Service** manages collection development and funding; and provides consulting services and support for libraries in state institutions, either directly or through contracts with public libraries. Beginning in fiscal year 1995-96 a full-time statewide institutional consultant will be hired, as approved during the last legislative session. The consultant will work to improve all state institutional library programs.

**Administration** provides central management, fiscal and accounting, and federal program administration, for the library.

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### **Natural Resource Information System Program**

The 1983 Legislature established the Natural Resource Information System (NRIS) to improve the availability and accessibility to data and information on Montana's natural resources. NRIS operates a clearinghouse and referral service to link users with the best sources of information. It helps coordinate among agencies and organizations which use the same types of natural resource information to reduce duplication and promote information sharing. NRIS serves governmental agencies, business and industry, and private citizens. NRIS personnel provide assistance in systems design and establishing standards for data collection to ensure quality and compatibility. NRIS has four main components:

**Montana Natural Heritage Program** maintains a computerized inventory of Montana's biological resources, emphasizing rare, threatened, or endangered plant and animal species and biological communities. The program is operated through a contract with The Nature Conservancy, which operates similar heritage programs in all 50 states and several foreign countries.

**Montana Water Information System** functions as the starting point for locating water resources information in Montana, such as data on surface water, groundwater, water quality, riparian areas, water rights, and climate data.

**Montana Geographic Information System (GIS)** personnel provide technical assistance on how to present data on maps to provide useful information. GIS personnel also assist state agencies and other users of geographic information in developing in-house expertise in using the system.

## **Introduction**

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**Montana Natural Resource Index** is a geographical and subject indexing system for data sources.

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### **Funding**

Total expenditures for the library were \$2,635,240 and \$2,675,877 for fiscal years 1993-94 and 1994-95, respectively. Library operations and grants to local libraries are financed from General Fund appropriations, federal assistance pursuant to the Library Services and Construction Act, and .38 percent of the state's Coal Severance Tax. NRIS is funded by state and federal grant revenues received through the Montana Departments of Transportation; Fish, Wildlife and Parks; State Lands; Natural Resources and Conservation; and from private sources.

The library was authorized 28.5 full-time equivalent (FTE) employees. It consisted of 24.5 FTE providing library services and administration, and 4.0 FTE operating NRIS. NRIS operated with approximately 7 additional FTE during the biennium. These FTE were funded through contracts with users of the system. Appropriation law allows the NRIS program to expand its FTE level to accommodate an increase in service contracts.

## **Prior Audit Recommendations**

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### **Prior Audit Recommendations**

The previous audit of the library resulted in one recommendation.  
The library has implemented the recommendation.



# **Independent Auditor's Report & Agency Financial Schedules**

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STATE OF MONTANA

Office of the Legislative Auditor



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MARY BRYSON  
Operations and EDP Audit

JAMES GILLET  
Financial-Compliance Audit

JIM PELLEGRINI  
Performance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Montana State Library Commission for each of the two fiscal years ended June 30, 1994 and 1995, as listed in the table of contents. The information contained in these financial schedules is the responsibility of the library's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the commission's assets and liabilities.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Montana State Library Commission for the two fiscal years ended June 30, 1994 and 1995, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

August 24, 1995





LIBRARY COMMISSION  
SCHEDULE OF CHANGES IN FUND BALANCES  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1993	\$ <u>0</u>	\$ <u>179,505</u>
ADDITIONS		
<u>Fiscal Year 1993-94</u>		
Nonbudgeted Revenue & Transfers In	23,239	3,497
Prior Year Revenue Adjustments	19,539	
Prior Year Expenditure Adjustments	108	1,494
Support From State of Montana	1,088,144	
Budgeted Revenue & Transfers In		1,125,175
Cash Transfers In		347,765
Prior Year Expenditures		16
<u>Fiscal Year 1994-95</u>		
Nonbudgeted Revenue & Transfers In	23,554	2,248
Prior Year Expenditure Adjustments	404	4,652
Support From State of Montana	1,116,356	
Budgeted Revenue & Transfers In		1,186,891
Cash Transfers In		349,011
Prior Year Expenditures		24
Total Additions	<u>2,271,344</u>	<u>3,020,773</u>
REDUCTIONS		
<u>Fiscal Year 1993-94</u>		
Budgeted Expenditures	1,131,030	1,504,210
Prior Year Revenue Adjustments		4,104 <sup>1</sup>
Direct Entries to Fund Balance		109,911 <sup>1</sup>
<u>Fiscal Year 1994-95</u>		
Budgeted Expenditures	1,140,314	1,535,563
Prior Year Revenue Adjustments		1,265
Total Reductions	<u>2,271,344</u>	<u>3,155,053</u>
FUND BALANCE: June 30, 1995	\$ <u>0</u>	\$ <u>45,225</u> <sup>1</sup>

<sup>1</sup> See note 7 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION  
SCHEDULE OF BUDGETED REVENUE & TRANSFERS IN - ESTIMATE & ACTUAL  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1995

	<u>Charges For Services</u>	<u>Grants, Contracts, Donations</u>	<u>Other Financing Sources</u>	<u>Federal</u>	<u>Total</u>
<u>Fiscal Year 1993-94</u>					
<u>SPECIAL REVENUE FUND</u>					
Estimated Revenue	\$ 2,000	\$ 601,378	\$ 41,230	\$ 1,817,848	\$ 2,462,456
Actual Revenue	219	372,887	27,923	724,146	1,125,175
Collections Over(Under) Estimate	<u>\$(1,781)</u>	<u>\$(228,491)</u>	<u>\$(13,307)</u>	<u>\$(1,093,702)</u>	<u>\$(1,337,281)</u>
<u>Fiscal Year 1994-95</u>					
<u>SPECIAL REVENUE FUND</u>					
Estimated Revenue	\$ 3,000	\$395,823	\$45,103	\$1,654,029	\$2,097,955
Actual Revenue	927	369,011	35,577	781,376	1,186,891
Collections Over(Under) Estimate	<u>\$(2,073)</u>	<u>\$(26,812)</u>	<u>\$(9,526)</u>	<u>\$(872,653)</u>	<u>\$(911,064)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

**LIBRARY COMMISSION**  
**SCHEDULE OF BUDGETED PROGRAM EXPENDITURES**  
**BY OBJECT & FUND - BUDGET & ACTUAL**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 1995**

	Library Commission	Natural Resource Information Service	Total
<b>PERSONAL SERVICES</b>			
Salaries	\$ 571,561	\$306,410	\$ 877,971
Other Compensation	3,275		3,275
Employee Benefits	156,798	75,750	232,548
Total	<u>731,634</u>	<u>382,160</u>	<u>1,113,794</u>
<b>OPERATING EXPENSES</b>			
Other Services	90,233	201,029	291,262
Supplies & Materials	15,664	15,921	31,585
Communications	36,362	14,773	51,135
Travel	35,305	17,381	52,686
Rent	139,435	3,600	143,035
Repair & Maintenance	13,969	32,510	46,479
Other Expenses	32,414	13,344	45,758
Total	<u>363,382</u>	<u>298,558</u>	<u>661,940</u>
<b>EQUIPMENT AND INTANGIBLE ASSETS</b>			
Equipment	132,210	41,126	173,336
Intangible Assets	301	2,616	2,917
Total	<u>132,511</u>	<u>43,742</u>	<u>176,253</u>
<b>GRANTS</b>			
From State Sources	487,169		487,169
From Federal Sources	235,845		235,845
Total	<u>723,014</u>		<u>723,014</u>
<b>DEBT SERVICE</b>			
Leases	876		876
Total	<u>876</u>		<u>876</u>
<b>TOTAL PROGRAM EXPENDITURES</b>	<u>\$1,951,417</u>	<u>\$724,460</u>	<u>\$2,675,877</u>
<b>GENERAL FUND</b>			
Budgeted	\$1,150,879		\$1,150,879
Actual	1,140,314		1,140,314
Unspent Budget Authority	<u>\$ 10,565</u>		<u>\$ 10,565</u>
<b>SPECIAL REVENUE FUND</b>			
Budgeted	\$1,560,287	\$960,150	\$2,520,437
Actual	811,103 <sup>1</sup>	724,460	1,535,563
Unspent Budget Authority	<u>\$ 749,184</u>	<u>\$235,690</u>	<u>\$ 984,874</u>

<sup>1</sup> See note 6 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

LIBRARY COMMISSION  
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES  
BY OBJECT & FUND - BUDGET & ACTUAL  
FOR THE FISCAL YEAR ENDED JUNE 30, 1994

	<u>Library Commission</u>	<u>Natural Resource Information Service</u>	<u>Total</u>
<b>PERSONAL SERVICES</b>			
Salaries	\$ 551,624	\$ 301,575	\$ 853,199
Other Compensation	2,850		2,850
Employee Benefits	159,819	85,385	245,204
Total	<u>714,293</u>	<u>386,960</u>	<u>1,101,253</u>
<b>OPERATING EXPENSES</b>			
Other Services	115,002	201,319	316,321
Supplies & Materials	20,457	15,853	36,310
Communications	35,277	14,929	50,206
Travel	32,497	13,066	45,563
Rent	135,557	3,641	139,198
Repair & Maintenance	15,077	33,990	49,067
Other Expenses	30,377	8,707	39,084
Total	<u>384,244</u>	<u>291,505</u>	<u>675,749</u>
<b>EQUIPMENT AND INTANGIBLE ASSETS</b>			
Equipment	142,391	11,911	154,302
Intangible Assets	3,110	3,513	6,623
Total	<u>145,501</u>	<u>15,424</u>	<u>160,925</u>
<b>CAPITAL OUTLAY</b>			
Buildings	7,962		7,962
Total	<u>7,962</u>		<u>7,962</u>
<b>GRANTS</b>			
From State Sources	478,855		478,855
From Federal Sources	208,678		208,678
Total	<u>687,533</u>		<u>687,533</u>
<b>DEBT SERVICE</b>			
Loans		66	66
Leases	1,752		1,752
Total	<u>1,752</u>	<u>66</u>	<u>1,818</u>
<b>TOTAL PROGRAM EXPENDITURES</b>	<u>\$1,941,285</u>	<u>\$ 693,955</u>	<u>\$2,635,240</u>
<b>GENERAL FUND</b>			
Budgeted	\$1,281,412		\$1,281,412
Actual	1,131,030		1,131,030
Unspent Budget Authority	<u>\$ 150,382</u>		<u>\$ 150,382</u>
<b>SPECIAL REVENUE FUND</b>			
Budgeted	\$1,844,850	\$1,262,591	\$3,107,441
Actual	810,255 <sup>1</sup>	693,955	1,504,210
Unspent Budget Authority	<u>\$1,034,595<sup>1</sup></u>	<u>\$ 568,636</u>	<u>\$1,603,231</u>

<sup>1</sup> See note 6 on page A-11.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-9.

# Notes to the Financial Schedules

## For the Two Fiscal Years Ended June 30, 1995

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### 1. **Summary of Significant Account Policies**

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#### **Basis of Accounting**

The Montana State Library Commission (library) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental Funds. In applying the modified accrual basis, the library records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the library incurs the related liability and it is measurable.

State accounting policy also requires the library to record the cost of employees' annual leave and sick leave when used or paid.

Expenditures may include: entire budgeted service contracts even though the library received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

#### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustment. Accounts are organized in funds according to state law. The library uses the following funds:

#### **Governmental Funds**

**General Fund** - to account for all financial resources except those required to be accounted for in another fund.

**Special Revenue Fund** - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. Library Special Revenue Funds include the Library Services and Construction Act grant, the library's share (.38 percent) of the state's Coal Severance tax, and grant revenues received through other state agencies and private sources.

## Notes to the Financial Schedules

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- **2. Annual and Sick Leave**

Employees at the library accumulate both annual and sick leave. The library pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for annual and sick leave are not reflected in accompanying financial schedules. The library absorbs expenditures for termination pay in its annual operational costs. At June 30, 1994 and June 30, 1995, the library had a liability of \$84,561 and \$88,549, respectively.
- **3. Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System (PERS). The library's contribution to PERS was \$82,681 in fiscal year 1993-94 and \$58,658 in fiscal year 1994-95. The PERS contribution in fiscal year 1993-94 of \$25,800 includes three employees early retirement costs (per Chapter 567, Laws of 1993).
- **4. General Fund Balance**

The General Fund is a statewide fund. Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.
- **5. Cash Transfers In**

The library receives funding from the coal tax and Resource Indemnity Trust (RIT) interest. This money is collected by the Department of Revenue and the Department of Natural Resources and Conservation and is recorded as revenue by those agencies. The state accounting system uses a cash transfer to avoid duplicate recording of the same revenue. The cash collected and recorded as revenue by the departments is automatically transferred at fiscal year-end to the library's records.

## Notes to the Financial Schedules

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### 6. **Budgeted Expenditures**

The library's Special Revenue Fund is primarily funded by federal grants related to the Library Service and Construction Act. The funding for grant projects is available for five years. The library includes the complete federal grant award amount in its initial appropriations. Because the level of related expenditures for the projects varies each year depending on each projects stage of implementation, the budgeted expenditures appear high in relation to the actual expenditures on the Schedule of Budget Program Expenditures by Object and Fund for each fiscal year.

In addition, the library also receives biennial appropriations for other activity in the Special Revenue Fund. The full amount of biennial appropriations is included in the first fiscal year of the biennium which makes the budgeted expenditures appear high in relation to actual expenditures.

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### 7. **Change in Fund Balance - Special Revenue Fund**

The library's Special Revenue Fund balance declined during fiscal year 1993-94 due to a direct entry to fund balance adjustment. The adjustment was to properly record an advance that had previously been recorded as revenue.





## **Agency Response**

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# MONTANA STATE LIBRARY



MARC RACICOT, GOVERNOR

1515 E. 6TH AVENUE

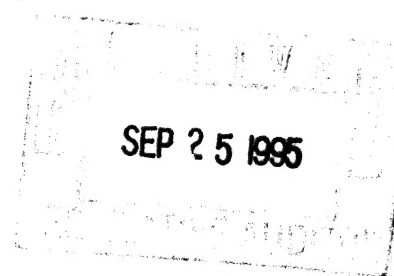
STATE OF MONTANA

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September 20, 1995

Scott Seacat  
Legislative Auditor  
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Dear Mr. Seacat:

We have reviewed the final report on the Financial-Compliance Audit for the Two Fiscal Years Ended June 30, 1995, of the State Library Commission. Our understanding is that your office had no recommendations.

I wish to thank you and your staff for their excellent working relationship during the conducting of the audit and in follow-up meetings.

Sincerely,

A handwritten signature in cursive script, appearing to read "Richard T. Miller, Jr.".

Richard T. Miller, Jr.  
State Librarian

RTM:mjw